



Time to Invest in Marijuana and Buy Canopy Growth (TSX:WEED)

Description

As the legal marijuana industry heats up, there have been several concerns voiced by investors over whether some of the largest listed cultivators are appropriate investments and that the industry has entered a bubble that will end badly for investors. Those claims include [allegations of fraud](#) leveled at Canada's third-largest cultivator by revenue **Aphria** and criticism by short-sellers that many companies are overhyped and overvalued. While investors certainly need to exercise caution when it comes to investing in cannabis stocks so that their money doesn't go up in smoke, there are increasing signs that now is the time to invest.

Rapidly growing market

The appeal of marijuana continues to grow, particularly after lawmakers in Canada deemed it legal for recreational use. It is also growing in popularity for use in a range of medical applications, and that will continue to expand at an exponential rates as more medicinal benefits are recognized, and other jurisdictions legalize its use.

While Canada and Uruguay are the only countries globally to have fully legalized the recreational consumption of marijuana, over 30 have provided some degree of authorization for its use in medical applications. This has created a booming market for cannabis cultivators with analysts estimating that the global legal marijuana market will be worth over US\$146 billion by 2025.

The growing push to legalize recreational use in the U.S., where it is still illegal under federal law and classified as a schedule 1 substance despite being legalized or decriminalized to some extent across 32 states. It is the tremendous pent-up demand that exists south of the border, which will act as a powerful tailwind for marijuana cultivators if it is ever legalized federally.

Even with the cannabis market remaining relatively immature and the consumption of marijuana even for medical uses surrounded by considerable stigma it is still assumed to be worth around US\$17 billion globally. That along with significant anticipated growth, with it estimated to expand roughly nine-fold in six years has created a remarkable opportunity for Canada's leading cultivators.

The early formal acceptance of the legal consumption of marijuana has seen companies such as **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC) become the only true industry players in North America and perhaps globally. This is because of the considerable legal and regulatory risks that still exist in the U.S. because of its categorization as a schedule 1 drug, meaning that marijuana doesn't even have a legally accepted medical benefit. This is blocking mainstream U.S. investors and sources of capital from considering investing in the budding industry.

The growing mainstream acceptance of the industry was recently confirmed by Canopy's induction into the illustrious **S&P/TSX60 Composite Index**, an index of the 60 largest companies listed on the **Toronto Stock Exchange**. Canopy is expanding its business across the globe through acquisitions, which not only bolsters market access, but also enhances its growing and processing capabilities. It also mitigates the risks of catastrophic product outages being triggered by a sharp change in regulation in one jurisdiction or cultivation failures caused by pests or disease, which can rapidly spread through the dense humid environments that exist within greenhouses.

Last year, Canopy aggressively expanded into Latin America, where highly biodiverse equatorial nations such as [Colombia](#) have highly favourable climates for cultivating marijuana. Colombia like many of its neighbours has introduced clear legal and regulatory requirements, which in conjunction with low costs makes them ideal locations for propagation.

Canopy has now moved to secure its first mover advantage in the U.S. by agreeing to acquire multi-state cannabis operator **Acreage Holdings**, which is positioned to build an integrated cultivating, processing and dispensing business upon federal legalization of marijuana. Canopy also recently bought **Cáñamo y Fibras Naturales**, a Spanish cultivator with 1,600 square feet of greenhouse space that is licenced to cultivate, distribute and export cannabis.

Why buy Canopy?

The wide range of acquisitions made by Canopy and its focus on scaling up its operations not only positions it to become a leading industry player and benefit from growing demand, but also creates an economic moat. The legalization of recreational consumption of marijuana in Canada combined with the rapid growth of leading domestic cultivators has companies like Canopy achieving what analysts call platform status.

This means that cannabis cultivation is fast becoming a mainstream widely accepted industry, but before that occurs, there will be a period of rationalization that will see smaller operators acquired and those that are highly speculative disappear. It will be the major players like Canopy that will be left standing and go on to become industry leaders.

CATEGORY

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2. Investing

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